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**ORIGINAL
MEMORANDUM**

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: January 22, 2007

*EA for EGT*AZ CORP COMMISSION
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RE: STAFF REPORT FOR THE JOINT APPLICATION OF MATRIX TELECOM, INC.
AND AMERICATEL CORPORATION FOR APPROVAL TO ENCUMBER
ASSETS IN CONNECTION WITH FINANCING ARRANGEMENTS. (DOCKET
NOS. T-03228A-06-0586, T-03517A-06-0586)

Attached is the Staff Report for the joint application of Matrix Telecom, Inc. and Americatel Corporation for approval to encumber assets in connection with financing arrangements. Staff recommends conditional approval of the requested authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 1, 2007.

EGJ:PMC:tdp

Originator: Pedro M. Chaves

Arizona Corporation Commission

DOCKETED**JAN 23 2007**

DOCKETED BY	<i>AKH</i>
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Service List for: Matrix Telecom, Inc. and Americatel Corporation
Docket Nos. T-03228A-06-0586 and T-03517A-06-0586

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

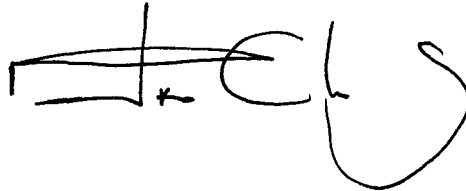
**MATRIX TELECOM, INC AND
AMERICATEL CORPORATION
DOCKET NOS. T-03228A-06-0586 AND
T-03517A-06-0586**

**APPLICATION FOR APPROVAL
TO ENCUMBER ASSETS IN CONNECTION
WITH FINANCING ARRANGEMENTS**

JANUARY 22, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Matrix Telecom, Inc. and Americatel Corporation, Docket Nos. T-03228A-06-0586 and T-03517A-06-0586 is the responsibility of the Staff member listed below: Pedro M. Chaves is responsible for the review and financial analysis of the Company's application.

A handwritten signature in black ink, appearing to read 'P. M. Chaves', with a large, stylized flourish at the end.

PEDRO M. CHAVES
PUBLIC UTILITIES ANALYST II

EXECUTIVE SUMMARY
MATRIX TELECOM, INC AND AMERICATEL CORPORATION
DOCKET NOS. T-03228A-06-0586 ET AL

Matrix Telecom, Inc. ("Matrix") and Americatel Corporation ("Americatel") collectively ("Applicants") filed an application with the Arizona Corporation Commission ("Commission") on September 15, 2006, requesting that the Commission authorize them to encumber their assets in the State of Arizona in connection with participation in certain debt financing arrangements pursuant to a previously incurred credit agreement.

Matrix is a Texas corporation with principal offices located at Dallas, Texas. In Arizona, Matrix is authorized to provide competitive resold inter-exchange telecommunication services and competitive resold local exchange service. Americatel is a Delaware corporation with principal offices located at Miami, Florida. In Arizona, Americatel is authorized to provide competitive interLATA and intraLATA resold telecommunications service except local exchange service.

On September 14, 2006, the Applicants entered in a Credit Agreement. The Applicants request authorization to encumber their assets in connection with up to \$90 million of new debt financing under the second phase of the Credit Agreement that includes a \$40 million term loan and a \$50 million revolving credit facility. The Applicants propose to pledge all of their assets as collateral and have their stock pledged as further collateral. The Applicants plan to use the proceeds of the financing to introduce new services, expand into new markets and to refinance existing indebtedness.

Staff concludes that a pledge of the Applicants' assets would not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Applicants request to encumber their assets in the State of Arizona pursuant to the Credit Agreement subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE	1
BACKGROUND	1
PURPOSE AND DESCRIPTION OF THE REQUESTED AUTHORIZATION AND RELATED FINANCING	1
FINANCIAL ANALYSIS.....	2
COMPLIANCE.....	3
CONCLUSION AND RECOMMENDATIONS	3

ATTACHMENT

Affidavit of Publication	A
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Introduction

On September 14, 2006, Matrix Telecom, Inc. ("Matrix") and Americatel Corporation ("Americatel") collectively ("Applicants") entered into a Credit Agreement.

On September 15, 2006, Matrix and Americatel filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to encumber their assets in the State of Arizona in connection with participation in certain debt financing arrangements pursuant to a Credit Agreement.

Public Notice

On November 8, 2006, the Applicant filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Arizona Business Gazette* on November 2, 2006. The *Arizona Business Gazette* is a daily newspaper of general circulation in the county of Maricopa, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

Background

Matrix is a Texas corporation with principal offices located at Dallas, Texas. In Arizona, Matrix is authorized to provide competitive resold inter-exchange telecommunication services¹ and competitive resold local exchange service.²

Americatel is a Delaware corporation with principal offices located at Miami, Florida. In Arizona, Americatel is authorized to provide competitive interLATA and intraLATA resold telecommunications service except local exchange service.³

The Applicants are affiliate companies that have the same immediate parent company, EnergyTRACS Acquisition Corp. ("EnergyTRACS") which in turn is a subsidiary of Platinum Equity, LLC ("Platinum") a limited liability company formed under the laws of Delaware with principal offices in Beverly Hills, California.

Purpose and Description of the Requested Authorization and Related Financing

Matrix and Americatel entered a Credit Agreement on September 14, 2006. The Credit Agreement consists of two phases; the first phase took effect on September 14, 2006, and the second phase will take place as soon as the Applicants secure regulatory approval.⁴ The Applicants plan to use the proceeds of the Credit Agreement to introduce new services, expand into new markets and to refinance existing indebtedness. The Applicants further state that the

¹ Decision No. 65926, dated May 16, 2003.

² Decision No. 68343, dated December 9, 2005.

³ Decision No. 61054, dated August 6, 1998.

⁴ Regulatory approval must be secured by March 13, 2007; otherwise, the debt must be paid by September 13, 2007.

Credit Agreement will allow additional consumers to benefit from competitive services in a more quick and efficient manner.

Phase one has a maximum term of 364 days, during this phase the Applicants are jointly and severally liable co-borrowers for debt obligations of up to \$90 million, consisting of a \$40 million term loan and a \$50 million revolving credit facility. The debt in this stage is guaranteed by Platinum, EnergyTRACS, and Matrix of Virginia (all affiliates of the Applicants).

The purpose of the Applicant's request is to obtain authorization to pledge all of their assets as well as their stock as collateral in support of phase two of the Credit Agreement. In phase two, the Applicants will continue to be jointly and severally liable for the entire debt, but the guarantees by its affiliates will terminate. The maturity date of the Credit Agreement under phase two is September 14, 2011. In preparation for this second phase, EnergyTRACS will transfer the stock of the Applicants it currently holds to a newly-formed, wholly-owned subsidiary of EnergyTRACS. This new subsidiary will be an intermediate holding company between the Applicants and EnergyTRACS; ultimate control of the Applicants will remain with Platinum.⁵

Financial Analysis

In the instance of utilities providing service to captive customers in a non-competitive circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the debt issuance is within the corporate powers of the applicant, is compatible with the public interest, with sound financial practices and with the proper performance by the applicant of service as a public service corporation and will not impair its ability to perform that service. However, pursuant to A.R.S. §40-301(D), foreign public service corporations providing communication service whose facilities are also used in interstate commerce are exempt from application of the statute. Staff finds that the Applicants satisfy the criteria for exemption of A.R.S. §40-301 for phase one of the Credit Agreement.

Each of the Applicants requests authorization to pledge assets as security for the phase two debt issuance. An Arizona statute requires public service corporations to obtain Commission authorization to encumber certain utility assets.⁶ The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. In this instance, a pledge of the Applicants' assets should not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Therefore, any authorization for encumbrances should provide customer protection for prepayments and deposits.

⁵ The Applicants are not Class "A" utilities; hence, they are not subject to the Commission's Public Holding Company and Affiliated Interest Rules.

⁶ See further, A.R.S. §40-285(A)

Compliance

There are no compliance issues with Matrix or Americatel.

Conclusion and Recommendations

Staff concludes that a pledge of the Applicants' assets would not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Applicants request to encumber their assets in the State of Arizona pursuant to the Credit Agreement subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

Staff further recommends authorizing the Applicants to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Applicant file with Docket Control within 60 days of the execution of any financing transaction authorized herein.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

AZ CORP COMM
Director Utilities

IN THE MATTER OF THE JOINT APPLICATION) DOCKET NO T-03228A-06-0586
OF MATRIX TELECOM, INC. AND) DOCKET NO. T-03517A-06-0586
AMERICATEL CORPORATION FOR)
APPROVAL TO ENCUMBER ASSETS IN)
CONNECTION WITH FINANCING)
ARRANGEMENTS.)

NOTICE OF FILING

Matrix Telecom, Inc. and Americatel Corporation hereby submit the attached affidavits of publication.

RESPECTFULLY SUBMITTED THIS 8th day of November, 2006.

MATRIX TELECOM, INC. AND
AMERICATEL CORPORATION

By: 

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, Arizona 85004

Counsel for Matrix Telecom, Inc. and
Americatel Corporation

Original and 15 copies of the foregoing
filed this 8th day of November 2006 with:

Docket Control
Arizona Corporation Commission
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Phoenix, Arizona 85007

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PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Copies of the foregoing hand-delivered/mailed
2 this 8th day of November, 2006 to:

3 Lyn A. Farmer, Esq.
4 Chief Administrative Law Judge, Hearing Division
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Christopher C. Kempley
9 Chief Counsel, Legal Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Ernest Johnson, Esq
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 By Mary Appolito

Arizona Business Gazette

The business resource

PO BOX 194
Phoenix, Arizona 85001-0194
(602) 444-7315 FAX (602) 444-7364

Public Notice of Filing of
Matrix Telecom, Inc. and
Americatel Corporation For
Approval
To Encumber Assets in
Connection With Financing
Arrangements
Docket No. T-03228A-06-0586/
Docket No. T-03517A-06-0586
Matrix Telecom, Inc. and
Americatel Corporation (the
"Applicants") filed an applica-
tion with the Arizona Corpora-
tion Commission ("Commis-
sion") on September 15, 2006,
seeking authorization to allow
the Applicants to encumber
their assets in the State of
Arizona in connection with a
guarantee or other provision
of security related to various
financings by their common
parent company. The applica-
tion is available for inspection
during regular business hours
at the office of the Commis-
sion located at 1200 West
Washington Street, Phoenix,
Arizona 85007, and at the of-
fice of Applicants' legal coun-
sel, Michael W. Patten, Esq.,
Roshka DeWulf & Patten, PLC,
400 East Van Buren Street,
Suite 800, Phoenix, Arizona
85004. The Commission may
grant the Application without
a hearing. If you have any
questions concerning this Ap-
plication, have objections to
its approval, or want informa-
tion on intervention, you may
contact the Consumer Serv-
ices Section of the Commis-
sion at 1200 West Washing-
ton Street, Phoenix, Arizona
85007, or call 1-800-222-7000.
The Commission does not dis-
criminate on the basis of dis-
ability in admission to its pub-
lic meetings. Persons with a
disability may request a rea-
sonable accommodation such
as a language interpreter, as
well as request this document
in an alternative format by
contacting Linda Hogan, ADA
Coordinator, voice: phone
number 602-542-3931, e-mail
LHogan@azcc.gov. Requests
should be made as early as
possible to arrange the ac-
commodation.
Published: November 2, 2006

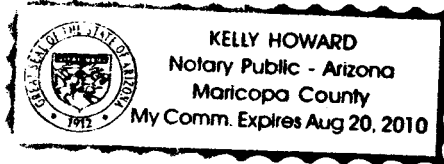
STATE OF ARIZONA
COUNTY OF MARICOPA

} SS.

Karen Way, being first duly sworn, upon oath deposes and says: That she is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published weekly at Phoenix, Arizona, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates indicated.

11/2/2006

Sworn to before me this
2ND day of
NOVEMBER 2006



Karen Way

Kelly Howard
Notary Public